

HISTORY OF BANK INDONESIA : PAYMENT SYSTEM
Period from 1953-1959



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1. Highlights

On 17 August 1959, Indonesia returned back to become the Negara Kesatuan Republik Indonesia (NKRI). However, the fight for independence had not yet over, particularly in the economy sector. Indonesia still inherited the poor post-war economic condition. The deficit in rupiah value and a drop in export activities had increased the inflation rate and the continuous foreign exchange crisis, which even reached its climax in 1954. Meanwhile, government expense for non-development purposes remained high, especially in the attempt to handle the tension between pusat and daerah, separatism movement DI/TII, and conflict with the Dutch to secure West Irian. According to article 7 Undang-undang Pokok Bank Indonesia 1953, BI's main duty as the Central Bank was in regulating the currency unit, maintained the value in a stable condition, performed money circulation and facilitate check movement in Indonesia, as well as advancing overseas payment process.



For the first time, BI circulated Uang Kertas Bank (UKB) marked with the year 1953 in seven denominations, namely from Rp 5 to Rp 1000. The UKB was prepared together with the preparation for the establishment of Bank Indonesia, after the nationalisation of DJB in the end of 1951. But this money was only circulated after the Undang-undang Pokok Bank Indonesia 1953 was valid on 1 July 1953. The same as BI, government also

issued government banknotes (UKP) with Rp 1 and Rp 2.5 denominations, namely the Nature Scenery Series marked with the year 1951 and 1953, and the Ethnic Group Series marked with the year 1954 and 1956.

BI specified itself as the central counting office for the non-cash transactions in the end of 1954 to expand local non-cash payment using check, demand deposit, credit note, debit note and other commercial documents that were able to be considered as non-cash payment instruments. The banks were obliged to own non-cash account in BI to maintain liquidity and collect clearing transactions. Bank participation in clearing was determined by the amount of clearing documents. If the number was small, the bank could directly process those with the corresponding bank. The first clearing took place in Jakarta on 15 February 1959, participated by six banks who appointed Reynst & Vinyu firm as the first clearing administrator. At that moment, the clearing results were counted through DJB. Previously, the counting were typically documents exchange between two banks, namely Nederlandsche Indische Escompto Bank and DJB. The next clearing practice took place in Surabaya, Semarang and Medan. Other than that, DJB introduced demand deposit for the first time as transaction documents for transfer to current account through account between individual in one bank which expand as transfer to current account inter-banks.

In the international cooperatives within this period, BI took care and run the administration to provide the overseas payment instruments. One of the ways to perform the overseas payment transactions was via the Letter of Credit and fund transfer through the corresponding bank.

2. Money Circulation in Indonesia throughout the Period of 1953-1959

Based on the Bank Indonesia Fundamental Constitution of 1953, Bank Indonesia was given the authority to circulate money. Consequently, money circulation in Indonesia was circulated through two institutions, government (Finance Minister) and Bank Indonesia. Bank Indonesia only emitted the banknotes of Rp 5 and above denominations. In the period of 1953-1959, BI emitted few series of banknotes namely the National Heroes and Cultural Series, Animal Series, and Handcraft Series. Meanwhile the government based on the UU Mata Uang 1951 circulated the Government Coins and Banknotes (UKP) of Rp 1 and Rp 2.50 denominations. Within the 1953-1959 period, number of circulated banknotes rose, however the role of the government banknotes (UKP) declined. Money circulation was part of the policy series comprising money emission, withdrawal from circulation as well as guarantee of all the circulated cash or non-cash money. During this period, the Monetary Board had specified the amount for guarantee of the cash and non-cash money circulation. So far, the guarantee for government money had not yet been specified. Within this period, government had stipulated certain limit for the UKP emission to achieve a healthy economic condition.

Who don't need money? In modern life, money holds a very significant role. Money can also serve as one of sovereignty symbols of a country. In his speech in the Radio Republik Indonesia (State Radio Broadcasting Station) Yogyakarta in October 1946, Mr Hatta stated, "Tomorrow, 30 October 1946, will be a historic day for Indonesia. Our people will face a new life. Oeang Republik Indonesia will start to circulate tomorrow as the only official payment instrument..."

Even though this article does not discuss the ORI, its emission marked the beginning of the history of the Indonesian economy. From that moment, the government and Bank Indonesia began to print money in various series and nominal, including in the period from 1953-1959.

In the modern economy life, the role of money is very essential. However, what is actually the purpose of money? How is money made? How does it look like? What is its history? All these questions are very interesting to discuss, as Mr Hatta expressed during his speech in Radio Republik Indonesia (RRI) Yogyakarta in October 1946, "Tomorrow, 30 October 1946 will be a historic day for Indonesia. Our people will face a new life. Oeang Republik Indonesia will start to circulate tomorrow as the only official payment instrument. Starting this midnight, the Japanese currency that used to become the official money is no longer valid. Besides, the Javasche Bank currency is also no longer valid..." That speech was delivered by Mr Hatta one day prior to the emission of Oeang Republik Indonesia (ORI), being the first money ever printed by the Indonesia government.

Role and Types of Money

Money serves as an exchange tool, measurement value, counting unit, purchasing power saving as well as payment measurement for the future.

According to its values, there are two types of money, namely full bodied money and token money. Full bodied money is money of which its intrinsic value is equivalent to its nominal value. While token money is money of which its intrinsic value is lower than its nominal value, for instance, banknotes and coins which are emitted by the government or the central bank. Intrinsic value represents the value of money material. Nominal value represents the value as quoted.

By observing its shape, there are four types of money, namely (1) commodity money, namely money that is valued as commodity as well as payment instrument, such as gold money; (2) legal tender namely banknotes and coins which serve as valid payment instruments; (3) customary money which comprises payment instructions generally accepted as money, such as check and demand deposit; (4) commemorative money, namely money circulated to commemorate certain events or as a means to raise funds. This commemorative money remains valid despite its limited circulation.

In this article, money will be discussed as legal tender in the period from 1953-1959, by focusing on:

1. Bank Indonesia banknotes
2. Government banknotes and coins
3. Circulation mechanism and money withdrawal from circulation
4. Guarantee over the circulated money

Bank Indonesia Banknotes (UKBI)

As the central bank, Bank Indonesia was the only institution given the authority to circulate money. This was stated in Principal Act on Bank Indonesia (UUPBI) of 1953. In UUPBI, BI was assigned to:

1. Control the rupiah value
2. Circulate money in Indonesia
3. Publish banknotes as the official payment instrument
4. Publish banknotes with the value of five rupiah and above

Article 40 UUPBI 1953 described banknotes that were published by De Javasche Bank (DJB) based on DJB Act of 1922 and Regulation dated 14 July 1949, remained valid as the official payment instrument until their withdrawal from circulation.

The emission of coins and banknotes under five rupiah was executed by the government (Finance Ministry), based on Law on Currency of 1951 (UU No. 20 of 1951, dated 27 September 1951).

Emission and Circulation of UKBI

UKBI Emission had been prepared since 1952, shortly after the DJB nationalisation in 1951. However, as UUPBI was only issued in 1953, "*UKBI Emisi 1952*" was circulated as from 2 July 1953. During the period from 1953-1959, BI issued several series of UKBI, namely UKBI Emisi 1952 (also known as National Heroes and Culture series), Animal series UKBI and Handicraft series UKBI.

National Heroes and Culture Series

National Heroes and Culture series UKBI (*UKBI Emisi 1952*) comprised seven denominations, from Rp 5 to Rp 1,000. These series were signed by BI Governor, Mr. Sjafruddin Prawiranegara along with Director, Mr. Indra Kasoema and circulated gradually until 25 January 1955. Rp 5 denomination was printed overseas by Thoms De La Rue & Co. Printing in England. While the other denominations printed by Johan Enschede en Zonen, Imp Printing in the Netherlands. Some of the Rp 10 and Rp 25 denominations were also printed by NV Printing Kebayoran.

Animal Series

The Animal Series of UKBI comprised eight denominations from Rp 5 to Rp 10,000. All denominations were marked with 1958, except for Rp 5 denomination which did not carry year mark, and Rp 10,000 denomination that was marked 1964. Rp 5 denomination began to circulate on 8 September 1959, while the other denominations were circulated after 1959. In August 1959, the government introduced the monetary sanitation policy aimed to reduce the amount of circulated money through Government Regulation in lieu of Act No. 2 of 1959. Through this policy, the government reduced the value of Rp 500 and Rp 1000 banknotes to Rp 50 and Rp 100 respectively.

Government Banknotes and Coins

In September 1951, the government issued Law on Currency of 1951 (Emergency Law No. 20, dated 27 September 1951). This Law ended the validity of "*Indische Muntwet 1912*" and stipulated a new regulation on currency. The Emergency Law stipulated as the Law on Currency of 1953, via Act no. 27 of 1953. Several provisions concerning government currency are as follows:

1. The valid Indonesian coins consisted of 50 cent fraction coins made of nickel and 1 cent fraction coins to 25 cents made of aluminium.
2. The government banknotes that could be emitted were Rp 1 and Rp 2.50 fraction banknotes according to the needs.
3. Government banknotes other than Rp 1 and Rp 2.50 were declared valid. However they would be withdrawn from circulation gradually by the Minister of Finance.
4. The Minister of Finance reserved the right to continue the emission of 10 cent and 25 cent fraction banknotes as transitional measure until the amount of the circulated coins became sufficient.

When nickel was hardly available, Emergency Law No. 4 of 1958 was drafted which legalised aluminium coins of 1 cent to 50 cent fractions, as well as aluminium bronze coins of Rp 1 and Rp 2.50 fractions.

Concerning government banknotes, at the end of March 1953, the amount of circulated government banknotes reached Rp 326 millions comprising Rp 229 millions of banknotes consisting of Rp 5 and Rp 10 fractions, and Rp 97 millions in of Dutch East Indies banknotes consisting of Rp 1 and Rp 2.50 fractions.

Emergency Law No.2 dated 4 January 1954 stipulated that the government banknotes of Rp 0.50, Rp1, and Rp 2.50 denominations were revoked as valid payment instruments from 1 January 1954.

Following this, at the end of March 1959, the amount of circulated government banknotes amounted to Rp 1,000 millions comprising Rp 131 millions in Rp 5 and Rp 10 fractions, Rp 310 million in Rp 1 and Rp 2.50 fractions, along with Rp 559 millions in Rp 1 and Rp 2.50 fractions.

Until 29 May 1954, government banknotes were circulated only by Bank Indonesia. However, from 19 May 1952, pursuant to Government Regulation No. 38 of 1954, besides Bank Indonesia, the government (the Minister of Finance) were given the authority to circulate this money according to the needs, in correspond with the regulations as stipulated by Bank Indonesia.

Mechanism of Banknotes Withdrawal from Circulation

According to article 12 UPBI of 1953, the regulation of banknotes revocation and withdrawal from circulation was stipulated. The regulation was as follows:

1. The Bank would announce banknotes withdrawal in the State Gazette for one time only.
2. The Bank invited the banknotes holders. Such was also promulgated in State Gazette for one time only.
3. Bank determined the period of the exchange of the withdrawn money.
4. After the time period ended, banknotes could be exchanged only in Bank Indonesia's Head Office.

Banknotes Withdrawal

Banknotes withdrawal that occurred in the period from 1953-1959 was the withdrawal of Rp 1,000 banknotes emitted by DJB in 1946. This was due to rampant faked money. The withdrawal mechanism was as follows:

1. On 2 March 1956, Bank Indonesia declared that by 5 March 1959 those banknotes would be withdrawn from circulation
2. Indonesia Bank gave the opportunity for the exchange until 5 June 1959. Afterwards, banknotes could be exchanged only in Bank Indonesia's Head Office. The entitlement to the exchange would be forfeited after 30 years namely on 30 November 1988.

Banknotes withdrawal took place for the second time for the Rp 2.50 and Rp 1 banknotes emitted by DJB on 1948. This was due to the Regulation of 1949 that was regarded to deviate from DJB Act 1922. The withdrawal mechanism was as follows:

1. On 22 November 1957, Bank Indonesia announced that as of 1 December 1957, those banknotes would be withdrawn from circulation
2. Bank Indonesia gave the opportunity for exchange until 1 December 1958. Afterwards, the exchange could be take place only in Bank Indonesia's Head Office. The right of exchange would be forfeited after 30 years namely on 30 November 1988.

Government Banknotes and Coins Withdrawal

During this period, Rp 0.50, Rp 1 and Rp 2.50 fractions of Government banknotes were withdrawn. The withdrawal began on 1 January 1954. As well as for government banknotes of 25 cent and 10 cent fractions which had been emitted according to Regulation of 20 November 1949. These banknotes were withdrawn from circulation from 1 January 1957. The deadline for the exchange was stipulated until 30 June 1957. Afterwards, the right to exchange would end and no further exchange was possible. This provision was contained in the State Gazette of the Republic of Indonesia.

Guarantee on the Circulated Money

From the beginning of banknotes emission, all circulated banknotes had to be guaranteed with gold. Therefore, the money holders were entitled to the right equivalent as the amount of gold reserve that could be exchanged at anytime. This guarantee also applied to DJB, both based on the Monopoly Right and DJB Act. This blanket guarantee continued until BI was established in 1953. Article 16 of UUPBI of 1953 stated:

1. One-fifth of the amount of all banknotes, current account balance, and other receivables that could be immediately collected from bank had to be guaranteed with gold, gold coins, raw material of gold coins, or reserve made up of overseas payment instruments which were generally exchangeable.
2. A minimum of one-fifth of the guaranteed value had to be placed in Indonesia.
3. Under an extraordinary condition, for a maximum period of 3 months, Bank Indonesia was allowed to deviate from the point 1.
4. In case within the 3 month-period, Bank Indonesia failed to fulfil the previous provision, the government would propose extension of such guarantee to the House of Representatives for the next 3 months.

Further, the Monetary Board stipulated through Decree No. 23 dated 2 February 1957, that as from 30 January 1957 to 30 April 1957, 15% of all banknotes, current account balance, and other receivables that could be immediately collected from bank had to be guaranteed with gold, gold coins, raw material of gold coins, or reserve made up of overseas payment instruments which were generally exchangeable. This stipulation was based on Principle Act on Bank Indonesia (UUPBI) 1953 article 16, paragraph (3). In its execution, few developments occurred, namely:

1. The guaranteed percentage kept on declining since 30 January 1957 and therefore sparked a concern that it would become less than 15% set
2. On 23 April 1957, the guaranteed percentage fell to 15,4 %
3. As it was estimated that Bank Indonesia was unable to fulfil the regulation in Article 16 of Principle Act on Bank Indonesia (UUPBI) of 1953 in a short time, therefore it was seen as inappropriate to determine the guaranteed percentage that were lower than 15% for the next three months. Through Emergency Law No. 14 of 1957, the Minister Council stipulated Bank Indonesia would be released from its obligation to comply with the guaranteed percentage, which had previously been regulated in Article 16,

paragraph 1 of Principle Act on Bank Indonesia (UUPBI) of 1953 for 6 months, from 30 April 1957 until 1 November 1957.

As for the government money, there was no regulation obligating the guarantee for the amount of the emitted government money. Its security was carried out by determining the limit on the amount of government money that could be circulated through Government Regulation. Few of these regulations were:

1. Government Regulation No. 20 of 1953 which restricted the amount to Rp 175 millions.
2. Government Regulation No. 38 of 1954, the amount was added Rp 200 millions, to reach Rp 375 millions.
3. Government Regulation No. 22 of 1955, the amount was added Rp 285 millions, to reach Rp 600 millions.

The Government money that was circulated in this period was relatively in small amount, namely around 5% of the total amount that was circulated (government money and bank money). Meanwhile, for coins, some of their value was guaranteed by the value of the metal that was used.

During this period, Bank Indonesia and the Government were in charge of the money circulation in Indonesia. However, the amount of money that was circulated by the government was only 5% of the total money in circulation. In addition to emitting banknotes and coins in various series, the revocation of De Javasche banknotes and government bank notes was effected pursuant the Regulation of 20 September 1949.

3. Clearing Practice in 1953-1959

The first clearing in the East Indies took place in Batavia (Jakarta) in 1909 which was participated by six major banks at that time. Initially, clearing was only a kind of document exchange between banks with the aim to obtain easy access in cash transaction that had developed in Europe. Until the time prior to the Japanese regime, clearing activity between banks was developing rapidly in the East Indies. Thus, clearing activity and central counting in the 1953-1959 period was continued from the last period clearing practice. The new clearing practice in Indonesia was marked by the Clearing Agreement of 26 June 1953 which was participated by nine banks including Bank Indonesia. In this period, the new policies for clearing and central counting had already been stipulated. Besides that, the number of clearing participants during this period kept on growing in accordance with the increasing number of documents circulated in clearing practice and central counting.

Apart from managing the cash payment system comprising the money circulation practice, Bank Indonesia was also assigned to propose the non-cash payment systems. One of them was clearing. Prior to the establishment of Bank Indonesia on 1 July 1953, the clearing procedure in Indonesia had been carried out by De Javasche Bank.

This first article will explore the development of the clearing practice prior to the establishment of Bank Indonesia. Upon reading this article, you will learn about when and how the clearing procedure took place.

Phone banking, mobile banking, internet banking, and ATM transaction, such as money transfer, have been the daily activities of the modern banking world aimed to offer a more convenient service to bank customers and the community, and all this is backed up by the current technology.

Apparently, numerous essential factors involving the cooperation and relationship among banks are required to deliver this convenience. One of the factors is the clearing procedure.

Clearing is described as the activity to count bank documents or inter-bank payment instruments carried out to smoothen the check payment traffic. Examples of inter-bank payment instruments are check, demand deposit, transfer receipt, bank draft, debit note and credit note.

The first clearing procedure implementation in the world was carried out by Bank of England. This Bank was established in 1694 as an ordinary private bank, but developed and performed formally as issuance bank and the bankers' bank since 1773 upon its reorganisation. Initially, Bank of England was assigned to provide advance payments to the government in return for the right of banknotes emissions by way of act. Subsequently, Bank of England performed clearing practices among banks in 1854.

To meet the needs for international trade, the clearing systems expanded to the European colonies, including the Indonesian archipelago. In East Indies, the first clearing was performed in Batavia on 15 February 1909; as many as 6 main banks took part as participants. This was the extension of the demand payment system that had previously been carried out by De Javasche Bank since 1 January 1907. Below were the banks taking part in the clearing:

1. *Nederlandsche Handel Maatschappij*, Factory Batavia
2. The Chartered Bank of India, Australia and China
3. Hongkong & Shanghai banking Corporation
4. *Nederlandsche Indische Escompto Maatschappij*
5. *Nederlandsche Indische Handelsbank*
6. *De Javasche Bank*

The implementation of clearing system was implemented in Surabaya as well, followed by those six banks which began on 1 April 1909. This was the first clearing system performed in De Javasche Bank office and directly led by the office manager of De Javasche Bank Surabaya.

Afterwards, clearing also commenced in Semarang with the 5 main bank participants, namely:

1. *Nederlandsche Handel Maatschappij*
2. *Nederlandsche Indische Handelsbank*
3. *Nederlandsche Indische Escompto Maatschappij*
4. *Koloniale Bank*
5. *De Javasche Bank*

During the period from 1909 until 1911, the clearing in Surabaya was performed by De Javasche Bank, but it was not the case in Batavia and Semarang, as it was performed by Rijnst & Vinju firm in Batavia and S.L. Van Nierop & Co Firm in Semarang. This was done so to maintain neutrality. On 15 November 1910, the banks participating in clearing issued a circular as a form of socialisation to the business people in making use of clearing systems to facilitate payment transactions that were accompanied with safety assurance.

For other regions with no main bank offices, the implementation of the clearing systems were carried out under the name *Central Verrekening* which was latter called the central counting, namely clearing without physical meeting but involved administrative procedure only. This system was effective until 1958.

Throughout 1912/1913, the total value of clearing carried out in Batavia, Semarang and Surabaya reached 144,392 pieces of documents worth of f 782.4 millions. In the period of 3 months, namely in 1915/1916, the value increased significantly to 173,043 pieces of documents amounting to f 1,192.0 millions, or rose 52%.

Due to success of the clearing system in these 3 cities, the system was later expanded several other cities, namely:

1. Medan from 17 July 1915
2. Bandung from 1 July 1921

3. Makasar from 1 July 1922
4. Palembang in 1929/1930
5. Pontianak in 1949/1950

From 1 July 1953, Bank Indonesia was assigned as the central bank in charge of managing the payment system which was regulated in Act No. 11 of 1953. Bank Indonesia used clearing as one of the methods to facilitate the circulation of demand deposit as one of its duties.

From the research carried out, there was no information obtained on the standard clearing regulation from the Indonesian independence period until 1953. "Clearing Agreement" which was made on 26 June 1953 served as the guide for clearing that was participated by 9 member banks, namely:

1. Bank Indonesia
2. Bank Negara Indonesia
3. The Chartered Bank of India Australia & China
4. *Escomptobank N.V*
5. Great Eastern Banking Corporation Limited
6. Bank of China
7. *Nationale Handelsbank N.V*
8. *Nederlandsche Handel Maatschapij N.V.*
9. Overseas Chinese Banking Corporation Limited

Meanwhile, other banks were not allowed to take part in clearing unless upon the agreement from all member banks.

Commercial papers that could be exchanged in clearing were checks, bank drafts, demand deposits, credit notes or other commercial papers under the agreement of all clearing members. The clearing meetings were held in Bank Indonesia office room and led by a Bank Indonesia staff appointed by the Board of Directors.

In a clearing meeting, each member bank appointed a representative in writing and submitted this to Bank Indonesia which shall pass the information to all clearing members. The appointment would expire as the members revoked the appointment letter.

In facilitating clearing practice, Bank Indonesia determined some guidelines and regulations on clearing documents, such as the attendance procedure, clearing practice, clearing validity, membership, clearing management and balance adequacy requirement. Unfortunately, not all banks were able to directly participate clearing directly since these banks had not met the clearing requirements.

If certain banks did not have sufficient clearing documents and did not comply with the other requirements to take part in clearing, they had to join the other direct clearing participants. This was also known as the sub-clearant banks. Their participation occurred through the mediation clearing member by signing an agreement between the mediated bank and the sub-clearant, and this could only be executed after the agreement was obtained from all members of clearing.

During this period, clearing could not be performed directly in every city due to the lack of exchanged of documents of the respective banks and therefore did not meet the requirements for clearing practice.

To cope with this, Bank Indonesia acted as the Central Counting office by accepting the documents to be accounted for from the participant banks. Bank Indonesia was given the authority to present checks, bank drafts and commercial paper that could be transferred to the banks concerned for payment.

There were differences between the clearing procedure and the central counting:

1. In the clearing procedure, all clearing members attended the clearing meeting and each of the banks distributed their documents.
2. In the counting procedure, there was no meeting in clearing room

In terms of the number of documents, the activities of Clearing and Central Counting increased from 1953/1954 until 1956/1957. However since 1957/1958 to 1959/1960, the number of documents went down despite continuous growth of their value, with exception in 1959/1960.

As we are aware of, the nationalisation of foreign banks took place in 1957/1958 in addition to the monetary sanitation in 1959.

Clearing took place for the first time on 26 June 1953, with 9 participating banks including Bank Indonesia. In its development, during the accounting year 1954/1955, the number of banks taking part in clearing reached 62 offices comprising 51 offices as direct members and 11 offices as the sub-clearant banks. Subsequently, there were 14 offices involved in what was known as central counting via Bank Indonesia in 4 places where clearing was not conducted.

From 1 April 1955 to 31 March 1956, there were 78 bank offices that became the clearing members in 9 locations throughout Indonesia comprising 53 direct member banks and 25 sub-clearant banks.

There were 20 bank offices that performed Central Counting through BI in 5 cities where clearing was not conducted.

The growth continued to rise in 1959/1960 where there were 98 clearing member banks consisting of 61 direct member banks, 37 sub-clearant banks in 9 locations with 24 central counting member banks in 6 locations.

While during the period from 1953 to 1959, the development of clearing practice did not indicate any significant progress, the "Clearing Agreement" reached on 26 June 1953 was historical for Indonesia, in particular for the development and progress of the Indonesian economy.

One of the duties of the central bank was to enhance the cash and non-cash payment systems. One of the efforts made by the central bank to advance the non-cash payment system was through clearing practice. From 1953-1959, clearing procedure was carried out in accordance with the "Clearing Agreement of 26 June

1953". As a result, by the end of 1959/1960 , there were as many as 98 clearing members in 9 different locations.

4. Focus on Policies 1953-1959

In correspond to the cash payment, the policies in this period were focused on imposing stern measures and revamping the money supply system in the Republic of Indonesia. This pertained the huge amount money in circulation during the post-independence war period, in terms of its volume and types of banknotes and coins.

In correspond to the cash payment, the policies in this period were focused on imposing stern measures and revamping the money supply system in the Republic of Indonesia. This pertained the huge amount money in circulation during the post-independence war period, in terms of its volume and types of banknotes and coins. The policy was focused on the withdrawal of Dutch gulden currency that remained in circulation, and regulating the money supply under a new regulation, pursuant to Act on Currencies of 1951 and Act on the Central Bank Principles of 1953.

While in correspond to the non-cash payment, the policies in this period were focused on maintaining the interbank clearing practice which had been taking place since the East Indies Administration era. During this period, Bank Indonesia resumed the status of De Javasche Bank as the clearing institution based upon the clearing agreement and central calculation issued in 1953 and 1954.

5. Strategic Measures 1953-1959

In terms of cash payment, during this period both institutions (Government and Bank Indonesia) adhered to their own provisions. For example, the government in regulating the money supply would comply with Act on Currencies of 1951, while BI would abide by Act on the Central Bank Principles of 1953.

In terms of cash payment, during this period both institutions (Government and Bank Indonesia) adhered to their own provisions. For example, the government in regulating the money supply would comply with Act on Currencies of 1951, while BI would abide by Act on the Central Bank Principles of 1953.

Until 29 May 1954, the Government's banknotes were exclusively circulated by BI for the Government's accounts. Pursuant to Government Regulation No. 38 dated 19 May 1954 (State Gazette of 1954 No. 63) the Government's banknotes circulated by the Government itself, and at the request from the Government and BI for the Government's accounts, the account administration (among others the account opening administration) was done by BI. When issuing it, the Government's accounts were credited, and when flowing it back to banks' cashier, they were debited.

5. Cash Payment System

a. Management of Cash Payment 1953-1959

1. Government' Right in money circulation

Pursuant to Act on Currencies of 1951, which was later amended to Law on Currencies of 1953, the Government could issue the Government Banknotes (UKP) of Rp1 and Rp2.50 denominations and coins of 25 cents, 10 cents, 5 cents, dan 1 cent denominations.

2. BI's Right to Circulate Money

The duties and authorities of BI to circulate money in Indonesia were regulated in detail as stated in Articles 7 to 12 of Act on the Central Bank Principles of 1953.

1. Government's Right in money circulation

Pursuant to Act on Currencies of 1951, which was later amended to Act on Currencies of 1953, the Government could issue the Government Banknotes (UKP) of Rp1 and Rp2.50 denominations and coins of 25 cents, 10 cents, 5 cents, dan 1 cent denominations. These banknotes and coins would be issued exclusively by or in the name of the Government. The Minister of Finance would determine the background designs of nickel and aluminum coins, their weight and diameters as well as their tolerance limit.

In 1958, the Government amended Act on Currencies of 1953 as the emission of coins made from nickel was facing a problem, and the material had to be substituted with another metal. The coin of 50-cent denomination which was previously made of nickel was subsequently made of aluminum. The Government could also issue coins of 1-rupiah and 2½-rupiah denominations made from aluminum and brass. However, the Government was able to continue issuing banknotes of 1-rupiah and 2½-rupiah denominations to meet the public need of small change.

In correspond to the money emissions by the Government, the Minister of Finance was authorized to put these denominations into the circulation via the central bank according to the need. At that time, the maximum amount of money to be issued would comply with a Government Regulation. Previously, pursuant to Government Regulation No. 20 of 1953, the Government would issue the Government notes and coins in 1-rupiah and 2½-rupiah denominations worth Rp175 million maximum. Later on, in response to meet the increasing payment of instruments, the Government added the banknotes in circulation amounting to Rp200 million making the value of total supply reach Rp375 million in compliance to Government Regulation No. 38 of 1954. Further, the Government added another Rp285 million in compliance to Government Regulation No. 22 of 1955. The total money supply rose to Rp660 million.

2. BI's Right to Circulate Money.

The duties and authorities of BI to circulate money in Indonesia were regulated in detail as stated in Articles 7 to 12 of Act on the Central Bank Principles of 1953. BI served as the only institution entitled to issue banknotes of Rp5 denomination and up, as well as to determine their shapes and physical features. In addition, BI was authorized to annul and withdraw the banknotes already issued from circulation, and regulate their exchange and replacement.

BI was also responsible for the clean money policy. In this way, banknotes or coins which were not considered worth circulation would be marked void and not circulated anymore.

b. Cash Payment Instrumen 1953-1959

1. Government Coins

Pursuant to Act on Currencies of 1951, the Government in this period issued a number of coins. They were made of aluminum and consisted of 1 cent, 5 cents, 10 cents and 25 cents denominations.

2. Government Banknotes

In this period, the Government also issued banknotes of 1 rupiah and 2½ rupiah denominations, namely the Landscape Series of 1951 and 1953 and Indonesian Ethics of 1954 and 1956.

3. The Central Bank Banknotes

The first emission of banknotes by BI marked 1952 comprising of 5-rupiah, 10-rupiah, 25-rupiah, 50-rupiah, 100-rupiah, 500-rupiah, and 1,000-rupiah denominations. They were circulated in stages in the span of 2 July 1953 until 25 January 1955.

1. Government Coins

Pursuant to Act on Currencies of 1951, the Government in this period issued a number of coins. They were made of aluminum and consisted of 1 cent, 5 cents, 10 cents and 25 cents denominations. All these coins were circular with a hole in the middle for the denominations of 1 cent and 5 cents. The 1 cent and 5 cents fractions had the same design, namely a grain of rice and marked "INDONESIA". The nominal value and year of printing were found on the front side, while the back side featured Malay-Arabic inscription that reads "Indonesia" encircling the hole.



The denominations of 10 cents and 25 cents depicted a flower ornament marked “Indonesia”. The nominal value and year of printing were found on the front side, while the back side depicted the state symbol, the the ‘Unity in Diversity’ Eagle and featured Malay-Arabic inscription that reads ‘Indonesia’ above it.



The same design was found on the denomination of 50 cents which was printed later on. But the Malay-Arabic inscription was replaced with a Latin one that reads “INDONESIA”. The 50-cent denomination was made of cupro-nickel depicting Prince Diponegoro at the reverse side. The front side depicted the same design as that found on the 10-cent and 25-cent denominations.

2. Government Banknotes

In this period, the Government also issued banknotes of 1 rupiah and 2½ rupiah denominations, namely the Landscape Series of 1951 and 1953 and Indonesian Ethics of 1954 and 1956. The Landscape Series of 1951 and 1953 depicted the same design but different signatories, namely Minister of Finance, Mr. Sjafruddin Prawiranegara for the 1951 emission and Minister of Finance, Dr. Sumitro Djojohadikusumo for the 1953 emission. The 1-rupiah denomination was in blue color depicting a sea panorama and multi-strata ricefield on the front side and mountain view on the reverse side.

Background : The Landscape Series of one rupiah denomination, 1951 emission



Background : The Landscape Series of one rupiah denomination, 1953 emission



The 2½-rupiah denomination was red in color. Its front side depicted a rocky coastal view and coconut trees, while the back side was green and depicted the state symbol, the 'Unity in Diversity' Eagle. The second emission of the Landscape series was printed by the Security Banknote Company.

Background : The Landscape Series of two and half rupiah denomination, 1951 emission



Background : The Landscape Series of two and half rupiah denomination, 1953 emission



The Indonesian Ethnic Series of 1954 and 1956 emissions had the same colors and backgrounds, but different signatories, namely Minister of Finance, Dr. Ong Eng Die for the 1954 emission and Minister of Finance, Mr. Jusuf Wibisono for the 1956 emission. The 1-rupiah denomination, also in blue color depicted an East Sumatera lady, while the 2½-rupiah denomination in red color depicted a Flores man. The back-side backgrounds of both currencies were the same, namely the state symbol, the the 'Unity in Diversity' Eagle. While, the 1-rupiah denomination was red, and the 2½-rupiah denomination was green. Both emission of the Indonesian Ethnic series were domestically printed by NV Pertjetakan Kebajoran.

Background : The Indonesian Ethnic series of one rupiah and two and half rupiah denominations, of 1954 emission.



Background : The Indonesian Ethnic series of one rupiah and two and half rupiah denominations, of 1956 emission.



3.The Central Bank Banknotes

The first emission of banknotes by BI marked 1952 comprising of 5-rupiah, 10-rupiah, 25-rupiah, 50-rupiah, 100-rupiah, 500-rupiah, and 1,000-rupiah denominations. They were circulated in stages in the span of 2 July 1953 until 25 January 1955. All these denominations were signed by the Central Bank Governor, Mr. Sjafruddin Prawiranegara along with Director, Mr. Indra Kasoema. As the banknotes depicted elements of Indonesian culture, some people called these emissions the Culture Series.

Background : The Indonesian Culture series of five rupiah and one thousand rupiah denominations, of 1952 emission.



These banknotes were printed overseas, namely by Thomas De La Rue & Co, England for the 5-rupiah denomination, while the other denominations were printed by Johan Enschede en Zonen, Imp, Holland. Some were however printed by NV Percetakan Kebayoran, namely some of 10-rupiah and 25- rupiah denominations.

The next emission was the Animal Series which were gradually circulated in 1958 and 1959 and even in 1962 depending on the denominations. These series were unique because they did not put the years of printing as commonly done in other series. The Animal Series comprised 8 denominations, namely: 5-rupiah, 10-rupiah, 25-rupiah, 50-rupiah, 100-rupiah, 500-rupiah, 1,000-rupiah and 2,500-rupiah denominations. All were signed by the Central Bank Governor, Mr. Sjafruddin Prawiranegara along with Director, Mr.T.R.B. Sabaroedin.

Background : The Animal Series of five rupiah and one thousand rupiah denominations (without annual mark)



As a matter of fact, the Central Bank had prepared the 5,000-rupiah denomination but it was not circulated following the PRRI revolt in 1958. These Animal Series depicted different animals on the front side, namely monkey (5-rupiah), deer (10-rupiah), single-horn rhino (25-rupiah), crocodile (50-rupiah), squirrel (100-rupiah), tiger (500-rupiah), elephant (1,000-rupiah), comodo lizard (2,500-rupiah) denominations, and wild bull (5,000-rupiah) denomination which was not put into circulation. These Animal Series were printed overseas, namely by Thomas De La Rue & Co, England.

6. Non-Cash Payment System

a. Management of Non-Cash Payment 1953-1959

1. The Clearing Agreement dated 26 June 1953 served as the guidelines for the clearing practice participated by 9 member banks.
2. The clearing meeting took place in BI office chaired by a BI officer appointed by the Board of Directors.
3. To ensure smooth clearing, BI issued a number clearing participation regulations and some other provisions on clearing documents.
4. An indirect participant or sub-clearent was a bank that did not have sufficient number of clearing documents or met the other requirements to take part in the clearing.
5. Such participation took place on behalf of a clearing member with an agreement between the mediator bank and sub-clearent.
6. In this period, BI introduced the Central Calculation in a number of regions or cities that were not able to conduct their own direct clearing.
7. BI in this period served as the Central Calculation office, accepted the documents for calculation from the Central Calculation participants.
8. By virtue of Act on the Central Bank Principles of 1953 article 13, BI reserved the right to:

- transfer money via telegram, written instruction or presented the bank drafts among the offices.
- accept and settle the money in the current accounts, execute the instructions to transfer money, accept payments from the collection of commercial paper and calculate with or among the third parties.

1. The Clearing Agreement dated 26 June 1953 served as the guidelines for the clearing practice participated by 9 member banks, namely 1) BI, 2) Bank Negara Indonesia, 3) The Chartered Bank of India, Australia and China, 4) Escomptobank, 5) Great Eastern Banking Corporation Limited, Bank of China, Nationale Handelsbank, Nederlandsche Handel-Maatschappij, Overseas Chinese Banking Corporation Limited. Meanwhile, the other banks were prohibited from taking part in the clearing, except with the approval from all members.
2. The clearing meeting took place in BI office chaired by a BI officer appointed by the Board of Directors. In this clearing meeting, each member would appoint in writing a representative and notified BI. The name would then be announced to all clearing members. Such appointment would be annulled when that member bank revoked the letter of appointment.
3. To ensure smooth clearing, BI issued a number clearing participation regulations and some other provisions on clearing documents. The rules covered the procedures of attendance, clearing implementation, clearing validity, membership, clearing management and balance adequacy prerequisites.
4. An indirect participant or sub-clearent was a bank that did not have sufficient number of clearing documents nor met the other requirements to take part in the clearing. As a result, this bank had to join the other direct clearing participants.

5. Such participation took place on behalf of a clearing member with an agreement between the mediator bank and sub-clearing member. And the clearing could only take place upon an agreement from all clearing members.
6. In this period, BI introduced the Central Calculation in a number of regions or cities that were not able to conduct their own direct clearing. This was so because the banks did not have sufficient document turnover for a clearing to be conducted.
7. BI in this period served as the Central Calculation office, accepted the documents for calculation from the Central Calculation participants. BI was authorized by the banks to present the cheques, bank drafts and commercial paper that could be traded to the said banks for payment.
8. By virtue of Act on the Central Bank Principles of 1953 article 13, BI reserved the right to:
 - o transfer money via telegram, written instruction or presented the bank drafts among the offices.
 - o accept and settle the money in the current accounts, execute the instructions to transfer money, accept payments from the collection of commercial paper and calculate with or among the third parties.

b. Non-Cash Payment Instruments 1953-1959

As from the Dutch colonization period, the country had been familiar with the banknotes and other payment instruments, such as cheques, bank drafts, credit notes, debit notes, transfer receipts and other commercial paper which could be traded through the clearing house.

As from the Dutch colonization period, the country had been familiar with the banknotes and other payment instruments, such as cheques, bank drafts, credit notes, debit notes, transfer receipts and other commercial paper which could be traded through the clearing house. These payment instruments were used for the payment system in one bank between one customer and another, and for the banks' internal purposes which used the transfer instruments.

The non-cash payment instruments used throughout this period were:

1. Cheque: unconditional order to the drawn bank to pay an amount of money as quoted on the cheque from the fund kept in the bank account of the cheque drawer.
2. Crossed cheque: was introduced into Indonesia for the first time on 1 January 1907 by DJB. It then served as a transfer form that could not be traded in a bank. While in the period from 1953 to 1959, the term 'crossed cheque' was defined as an instruction from the customer to the bank that kept the fund to transfer the fund to the other person's account within the same bank. Later

- on, this crossed cheque developed from a transfer transaction payment instrument in the same bank to interbank transfer via clearing.
3. Draft: unconditional payment instruction to pay a certain amount of money to the related person or body on a given day in the future.
 4. Credit Note: under the clearing regulation, a credit note is a document used to transmit or transfer non-cash funds to another bank via clearing. The credit note is also used for inter-office transaction via a letter, credit note and telegram. Such credit note was sent via a Post Office.
 5. Debit Note: under a clearing regulation, a debit note was document or letter used to collect payment from another bank customer or another bank via clearing. Debit note was also used for inter-office transaction via transaction via a letter, debit note and telegram. Such debit note was sent via a Post Office.
 6. Transfer Invoice: was an invoice as a transfer receipt from another city which could be charged to the recipient bank. This invoice was issued by the recipient bank and had to be signed by the recipient. When the transfer invoice would be cleared, it also had to be signed by the bank issuing the invoice.
 1. Transfer Note: it was also frequently called credit debit note. It was a document used to transfer fund from the customer's account to the account of another customer. This document was also used to charge a bank customer or give some yield to the bank customer or for other bank's internal purposes.